

Message Text

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21

ORIGIN EB-11

INFO OCT-01 AF-10 ARA-16 EA-11 EUR-25 NEA-14 RSC-01 IO-14

ISO-00 CAB-09 CIAE-00 COME-00 DODE-00 DOTE-00 INR-11

NSAE-00 FAA-00 SS-20 NSC-07 L-03 TRSE-00 AID-20 OMB-01

FRB-03 XMB-07 /184 R

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CAB - RECTOR (INFO)

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R 261535Z JUL 74

FM SECSTATE WASHDC

TO AMEMBASSY ABIDJAN

AMCONSUL AUCKLAND

AMEMBASSY BEIRUT

AMEMBASSY BELGRADE

AMEMBASSY BERN

AMEMBASSY BRIDGETOWN

AMEMBASSY BOGOTA

AMEMBASSY BONN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY BRASILIA

AMEMBASSY BRUSSELS

AMEMBASSY BUENOS AIRES

AMEMBASSY CAIRO

AMEMBASSY CARACAS

AMCONSUL CASABLANCA

AMEMBASSY COPENHAGEN

AMCONSUL CURACAO

AMEMBASSY DUBLIN

USMISSION GENEVA

AMEMBASSY GEORGETOWN

AMEMBASSY GUATEMALA

AMEMBASSY HELSINKI

AMCONSUL JOHANNESBURG

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AMCONSUL KARACHI

AMEMBASSY KINGSTON
AMEMBASSY LAGOS
AMEMBASSY LIMA
AMEMBASSY LISBON
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY MANAGUA
AMEMBASSY MANILA
AMCONSUL MELBOURNE
AMEMBASSY MEXICO
AMEMBASSY MONTEVIDEO
AMCONSUL MONTREAL
AMEMBASSY MOSCOW
AMEMBASSY NAIROBI
AMEMBASSY NASSAU
AMEMBASSY NEW DELHI
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY PANAMA
AMEMBASSY PARIS
AMEMBASSY PORT AU PRINCE
AMEMBASSY PORT OF SPAIN
AMEMBASSY PRAGUE
AMEMBASSY QUITO
AMEMBASSY REYKJAVIK
AMCONSUL RIO DE JANEIRO
AMEMBASSY ROME
AMEMBASSY SAN JOSE
AMEMBASSY SAN SALVADOR
AMEMBASSY SANTIAGO
AMEMBASSY SANTO DOMINGO
AMEMBASSY SEOUL
AMEMBASSY SOFIA
AMEMBASSY STOCKHOLM
AMCONSUL SYDNEY
AMEMBASSY TAIPEI
AMEMBASSY TEGUCIGALPA
AMEMBASSY TEL AVIV
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
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AMCONSUL VANCOUVER

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E.O.11652: N/A

TAGS- ETRN, XX

SUBJECT: CIVAIR - FOREIGN GOVERNMENT SUBSIDIES TO

FOREIGN AIRLINES

REF : STATE 79306

1. DEPT HAS REVIEWED REPLIES TO REFTEL AND IS APPRECIATIVE OF POSTS REPORTS. THE CAB HAS ALSO FOUND THIS INFORMATION USEFUL AND HAS REQUESTED FURTHER DETAILS ON FOLLOWING SPECIFIC POINTS:

A. CONTRIBUTIONS TO EQUITY CAPITAL BY NATIONAL GOVERNMENTS OR OTHER GOVERNMENTAL ENTITIES WITH NO LEGAL OR HISTORICAL BASIS FOR A REALISTIC EXPECTATION OF AN ADEQUATE ECONOMIC RETURN ON THE CAPITAL CONTRIBUTED.

B. DIRECT LOANS BY THE GOVERNMENT OR NATIONAL BANK TO THE AIRLINE AT FAVORABLE INTEREST RATES OR WHERE SUCH LOANS WOULD NOT BE AVAILABLE ON THE OPEN AND COMPETITIVE MONEY MARKET, EITHER BECAUSE OF THE UNAVAILABILITY OF MONEY OR BECAUSE THE FINANCIAL POSITION OF THE CARRIER COULD NOT SUPPORT ADDITIONAL DEBT FINANCING. PRESUMABLY SUCH GOVERNMENT OR NATIONAL BANK LOANS MADE TO A STATE-OWNED CARRIER DO NOT REQUIRE AN ANALYSIS OF THE FINANCIAL CONDITION OF THE CARRIER AS A BUSINESS ENTITY AND THEREFORE SUCH A LOAN IS

PRESUMPTIVELY ONE THAT IS MORE ADVANTAGEOUS THAN ONE MADE UNDER NORMAL COMMERCIAL CONDITIONS AND THEREFORE MUST BE LABELED A SUBSIDY.

C. GOVERNMENT GUARANTEES OF LOANS FROM COMMERCIAL SOURCES FOR EQUIPMENT PURCHASES OR OTHER INVESTMENT IN GROUND EQUIPMENT AND PROPERTIES. AGAIN, TO THE DEGREE THAT GOVERNMENT LOAN GUARANTEES ENABLE THE LIMITED OFFICIAL USE

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CARRIER TO OBTAIN FINANCING FROM A COMMERCIAL SOURCE AT FAVORABLE TERMS OR WITHOUT HAVING ITS BOOKS EXAMINED, THIS PRACTICE CAN ONLY BE DEEMED TO BE AN INDIRECT SUBSIDY BY THE GOVERNMENT SINCE IT IS THE CREDIT-WORTHINESS OF THE GOVERNMENT THAT IS THE ULTIMATE SECURITY BEHIND THE LOAN. THE FACT THAT THE VALUE OF A LOAN GUARANTEE CANNOT BE QUANTIFIED CERTAINLY DOES NOT MEAN THAT IT IS NOT OF CONSIDERABLE VALUE.

D. ADVERTISING BY NATIONAL TOURIST OFFICES EITHER DIRECTLY OR JOINTLY WITH THE NATIONAL CARRIER THAT IS DESIGNED TO ADVANCE THE PUBLIC IMAGE OF THE NATIONAL CARRIER OR TO PROMOTE TRAVEL LIKELY TO BE UNDERTAKEN ON THE NATIONAL CARRIER.

E. TOURIST GIVE-AWAY PACKAGES FINANCED BY NATIONAL TOURIST ORGANIZATIONS THAT MAY OR MAY NOT BE IDENTIFIED WITH THE NATIONAL CARRIER, YET ARE CLEARLY DESIGNED TO ENCOURAGE TRAVEL TO THE HOMELAND (OR STOPOVERS) AND CAN ONLY BE CONSTRUED AS FAVORING THE NATIONAL CARRIER TO THE EXTENT THAT THE NATIONAL CARRIER IS DOMINANT IN THAT TRAVEL MARKET.

F. PAYMENT OF ARBITRARY OR ARTIFICIALLY HIGH MAIL RATES (SUCH AS THE UPU RATE) FOR THE CARRIAGE OF MAIL ACCOMPANIED BY A POLICY FAVORING THE HOMELAND CARRIER FOR MAIL SHIPMENTS.

G. PAYMENT OF ARBITRARY OR ARTIFICIALLY HIGH RATES FOR THE CARRIAGE OF MILITARY CARGO WHICH WOULD, OF COURSE, BE ACCOMPANIED BY A POLICY FAVORING THE NATIONAL CARRIER (OR AN AFFILIATE) FOR SUCH SHIPMENTS.

H. RENDERING OF SERVICES FREE OR BELOW ECONOMIC COST BY OTHER GOVERNMENTAL AGENCIES TO THE HOMELAND CARRIER SUCH AS: CUSTOMS PROCESSING; AIR TRAFFIC CONTROL SERVICES AND FACILITIES; ETC.

I. CREW TRAINING BY THE GOVERNMENT (USUALLY THE MILITARY) AT BELOW THE TRUE COST OF SUCH TRAINING.

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J. PAYMENT OF DIRECT OR INDIRECT SUBSIDIES FOR THE DOMESTIC TRANSPORTATION SERVICES OF THE INTERNATIONAL CARRIER (OR AN AFFILIATE) WITH EVIDENCE THAT SOME PART OF SUCH SUBSIDY PAYMENTS HELP THE CARRIER OFFSET THE TRUE ECONOMIC COSTS OF ITS INTERNATIONAL SERVICES.

K. GOVERNMENT REIMBURSEMENT TO CARRIER FOR CARRIER'S COMMITMENT TO PURCHASE OR OPERATE SPECIFIC (PRESUMABLY HOME-COUNTRY MANUFACTURED) AIRCRAFT TYPES.

2. ADDRESSEE POSTS ARE REQUESTED TO PROVIDE INFORMATION ON ABOVEPOINTS TO THE EXTENT NOT ALREADY COVERED IN PREVIOUS REPLIES. INGERSOLL

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